Subject: Preliminary results from the September 2021 survey September 17, 2021
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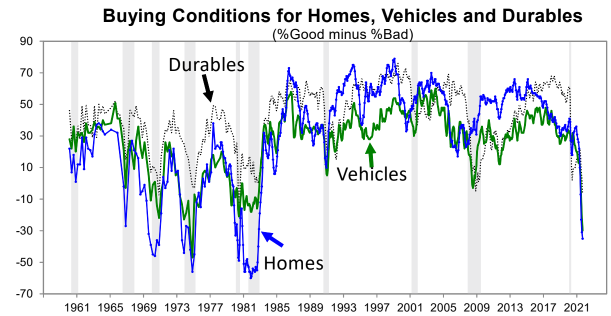
The steep August falloff in consumer sentiment ended in early September, but the small gain still meant that consumers expected the least favorable economic prospects in more than a decade. Just two components posted additional declines: buying attitudes for household durables fell again in early September to a low reached only once before in 1980, and long term economic prospects fell to a decade low. Although the year-ahead economic outlook improved slightly in early September, it was still 31% below the June peak; the same was true for the small rebound in unemployment expectations. The decline in assessments of buying conditions for homes, vehicles, and household durables left all three near all-time record lows (see the chart), with the declines due to spontaneous references to high prices. This is consistent with an ongoing spending shift from goods to services, although the gains in service spending have been recently slowed by the Delta variant. Some observers anticipated that the early August plunge in confidence would quickly disappear since it was driven by emotions. A more accurate reading is that consumers correctly assessed the economic impact of the resurgent Delta variant. Emotions have long been known to speed responses, the so-called fight or flight response, which was the adaptive function they performed in early August. Many other sources of economic data have since shifted in the same direction, and point toward slower growth in consumer expenditures and purchases of housing to the end of 2021.



There are at least three potential reactions to inflation. Consumers have initially reacted by viewing the rise in inflation as transitory, believing that prices will stabilize or even fall in the future. As a result, postponing purchases is seen as a viable strategy. This implies a slowdown of spending in the months ahead and a more robust rebound later in 2022. The main alternative is that inflation will not be transient but will rise further due to an unprecedented expansion in fiscal and monetary policies. The resulting rise in inflationary psychology will lessen resistance to rising prices and stiffen demands for increased wage gains. This reaction takes a long time to fully develop, and is contingent on significant increases in long-term inflation expectations, which have yet to be observed. The final alternative is that consumers may believe that the most effective strategy to maintaining their purchasing power is to emphasize increases in their incomes, net of taxes and transfers. The effectiveness of pandemic transfers were shown to be successful in offsetting hardships among those most vulnerable to economic disparities. Transfers to offset the inflationary erosion of living standards would be justified in a similar manner.

The expected year-ahead inflation rate was 4.7% in early September, just above last month's 4.6%, and well above last year's 2.6%. Long term inflation expectations were unchanged at 2.9% in August and September, and remained only slightly above last year's 2.7%. Inflation expectations remain consistent with the transient hypothesis, although consumers still expected losses in real incomes, since expected nominal gains were just 1.6% in September, with just 19% expecting real income gains.

Inflation's negative impact on family budgets was unchanged, cited by 19% of all households in both August and September. Although declining living standards were still more frequently cited by older, poorer, and less educated households, over the past few months, complaints about rising prices have increased among younger, richer, and more educated households. Recent income gains rose slightly, and net household wealth rose, especially among those with incomes in the top third.

There was a complete rout of net favorable views of buying conditions: household durables fell to the lowest level since 1980, vehicles fell to the lowest level since 1974, and homes to the lowest level since 1982. These record drops were all due to complaints about high prices: homes had the highest negative ratings of home prices ever recorded, vehicles had the most negative price references since 1974 (in response to the first oil embargo), and durables had the worst price rating since 1980.

	Sept 2020	Oct 2020	Nov 2020	Dec 2020	Jan 2021	Feb 2021	Mar 2021	April 2021	May 2021	June 2021	July 2021	Aug 2021	Sept Prelim
Index of Consumer Sentiment	80.4	81.8	76.9	80.7	79.0	76.8	84.9	88.3	82.9	85.5	81.2	70.3	71.0
Current Economic Conditions	87.8	85.9	87.0	90.0	86.7	86.2	93.0	97.2	89.4	88.6	84.5	78.5	77.1
Index of Consumer Expectations	75.6	79.2	70.5	74.6	74.0	70.7	79.7	82.7	78.8	83.5	79.0	65.1	67.1
Index Components													
Personal Finances—Current	113	113	111	114	109	110	112	126	120	117	116	109	115
Personal Finances—Expected	127	129	122	122	121	118	118	124	113	119	120	111	113
Economic Outlook—12 Months	83	88	75	76	87	83	108	115	110	119	109	74	82
Economic Outlook—5 Years	92	100	85	100	88	82	94	93	93	97	88	75	73
Buying Conditions—Durables	114	109	114	119	115	113	128	126	111	112	102	94	84